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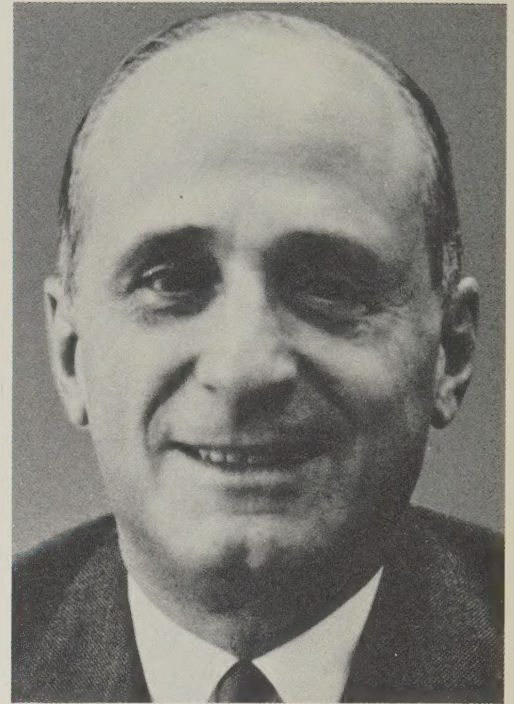
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HIGHLIGHTS OF THE YEAR

FINANCIAL	1973	1972
Revenues	\$338,531,000	\$235,961,000
Cash generation from operations	43,691,000	33,566,000
— per common share	4.38	3.36
Net income	24,166,000	19,006,000
— per common share	2.42	1.91
Dividends paid on common shares	8,478,000	7,727,000
— per common share85	.775
Capital expenditures	33,970,000	35,620,000
Long-term debt at end of year	106,172,000	103,550,000
Shareholders' equity at end of year	198,294,000	182,555,000
OPERATING		
Production of crude oil and natural gas liquids		
— gross (barrels)	10,916,000	7,972,000
Natural gas produced and sold		
— gross (thousands of cubic feet)	34,004,000	34,585,000
Sales of sulphur (long tons)	221,000	106,000
Crude oil runs to refinery (barrels)	22,472,000	21,266,000

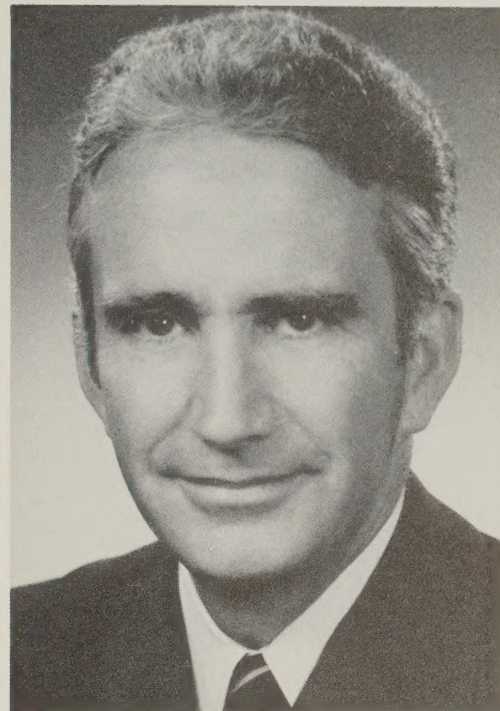
A. F. CAMPO

Mr. A. F. Campo was the founder and Managing Director of the Company since its inception in 1953. It was principally through his foresight and planning that the organization achieved its present status. Mr. Campo relinquished his position as Chief Executive Officer in April, 1973. He continues to serve as Chairman of the Board and his experience and advice are still available to the Company.



P. A. NADEAU

Mr. P. A. Nadeau joined Petrofina Canada Ltd. in September, 1972, after many years of experience in the financial world, and latterly as President of the James Bay Development Corporation. Mr. Nadeau became a Director of the Company in 1972 and was elected President and Chief Executive Officer in 1973.



TO THE SHAREHOLDERS

The Canadian economy experienced three years of sustained growth. In 1973 Gross National Product reached \$116 billion. After allowing for price increases of some 7%, the real growth amounted to 5%.

Impressive gains occurred in business capital expenditures with outlays on new plant and equipment increasing 20% over the previous year.

Not all sectors, however, sustained continued upward movement. Consumer spending on durables and the housing sector exhibited weakness by mid-year; a trend which became more pronounced in the closing months of 1973.

Although unemployment abated somewhat during the year, to a rate of 5.6% of the work force, it remained a serious Canadian economic problem, second only to inflation in importance.

Government spending continued to escalate at all levels and now amounts to approximately 34% of the Gross National Product.

In 1973 Canadian production of crude oil and natural gas liquids increased by 16.3% to reach 2,116,000 barrels per day. Refinery demand reached 1,849,000 barrels per day, a 9.9% increase. Exports to the United States averaged 1,127,000 barrels per day, an increase of 18.9%. Imports of crude oil into

Canada averaged 860,000 barrels per day, an increase of 8.4%, and domestic consumption of refined petroleum products increased by 4.5%.

Natural gas sales amounted to 6.3 billion cubic feet per day, an increase of 5% over the previous year.

The Company's net earnings for the year ended December 31, 1973, were \$24,166,000 (\$2.42 per share) compared with \$19,006,000 (\$1.91 per share) for the previous year. Cash generated from operations amounted to \$43,691,000 (\$4.38 per share) compared with \$33,566,000 (\$3.36 per share) for the previous year. Other financial details appear elsewhere in this report.

The following capital amounts were invested in properties, plant and equipment.

	1973	1972
Exploration and production	\$10,049,000	\$10,183,000
Manufacturing	15,587,000	19,729,000
Marketing	8,087,000	5,493,000
Other	247,000	215,000
	<u>\$33,970,000</u>	<u>\$35,620,000</u>

At year-end the Company's working capital was \$23,975,000 compared with \$17,220,000 at the end of the previous period.

Dividend payments to the shareholders

Dr. J. R. PATTON

For seventeen years Dr. J. R. Patton was responsible for the management and growth of the Company's refinery and petrochemical operations. Dr. Patton held the positions of President, as well as Vice-Chairman of the Board. On reaching the mandatory retirement age in 1973, Dr. Patton relinquished his executive position. His contribution to the welfare and progress of the Company is recognized by the shareholders, the directors and the staff.



amounted to \$8,478,000 (85¢ per share) compared with \$7,727,000 (77½¢ per share) in 1972.

During the year, most unusual developments occurred in the world-wide oil industry which had important repercussions on the country, the public and the industry itself.

Prices for foreign crude oil increased to an unprecedented degree. Shipments of oil from the Middle East were curtailed and, to some destinations, prohibited.

Special export taxes were levied by the Canadian government on Canadian crude oil shipped to the United States while increased levies on production revenues were imposed by the governments of Saskatchewan, Alberta and British Columbia.

In this and other ways, the oil and gas industry of Canada was subjected to more and more intervention by governments and is faced with heavy additional financial burdens at a time when the needs of the industry for large amounts of money to search for and develop new sources of oil and gas are rising steeply.

Although we appreciate the ever present tendency of governments to increase their revenues, the oil industry needs the higher realizations for crude oil and natural gas which today's world-wide

market conditions permit. Unless these are made available to the industry, there will be little incentive for continued exploration programmes, particularly in frontier areas and for the development of production from the Alberta Oil Sands.

The industry has a responsibility to provide the major portion of the energy required by the citizens of Canada. It has done so efficiently for more than 100 years and undoubtedly it will continue to do so provided it can operate in a favourable political and financial environment.

Exploration and Production

During 1973, the Company participated in the drilling of 51 exploratory wells and 24 development wells for a total of 75 wells compared with 61 wells in 1972. The highlight of this programme was the drilling of a deep exploratory well on a 12,800 acre drilling reservation at Coalspur, Alberta, where the Company holds a 32.5% working interest. This well, Fina Gulf Pacific Erith No. 6-13, discovered natural gas in the Devonian and is presently standing as a capped gas well. Plans for further drilling in the area are being formulated. The Company's other holdings in the Coalspur area include a 32.5% working interest in approximately 30,000 acres of Crown leases in close proximity to the discovery.

The drilling programme for the year resulted in 6 oil wells; 22 gas wells; 4

During the year, Baron Wolters, Honorary Chairman of the Board of Petrofina, S.A., retired from the Board of the Company. Mr. A. Demeure de Lespaul, Managing Director of Petrofina, S.A., was concurrently elected a Director of the Company. The outstanding ability and experience of Baron Wolters, and his contribution to the affairs of Petrofina Canada Ltd. through the early difficult years are reflected in the success of the Company.

The twenty years of growth could not have been possible without the continued dedicated effort of the staff. To the more than two thousand employees of the Company, the directors extend their appreciation.

suspended wells; and 35 abandonments. At the year-end 8 wells were still drilling or awaiting completion.

The 1973 exploration programme also resulted in a minor addition to the gas reserves of the Company through the success of wells drilled at Namaka and Whitecourt in Alberta and at West Buick Creek in British Columbia.

The Whitecourt-Windfall area discoveries referred to in last year's report were placed on production in mid-1973, but did not prove to be very substantial.

Seismic activity continued at about the 1972 level and this phase of the exploration programme included surveys in the MacKenzie Delta, the foothills of Alberta and British Columbia and on the Whitecourt Project.

Due to the scarcity of suitable offshore drilling equipment no drilling was undertaken in Hudson Bay or on the East Coast; however, 1974 plans include two offshore wells in Hudson Bay. During the year the Company's gross acreage holdings were reduced by approximately 330,000 acres in Hudson Bay and 220,000 acres on the East Coast.

A number of farm-outs were granted during the year, the most significant being an arrangement involving 23,000 acres at Benjamin Creek in the Wildcat Hills area near Calgary. Under this

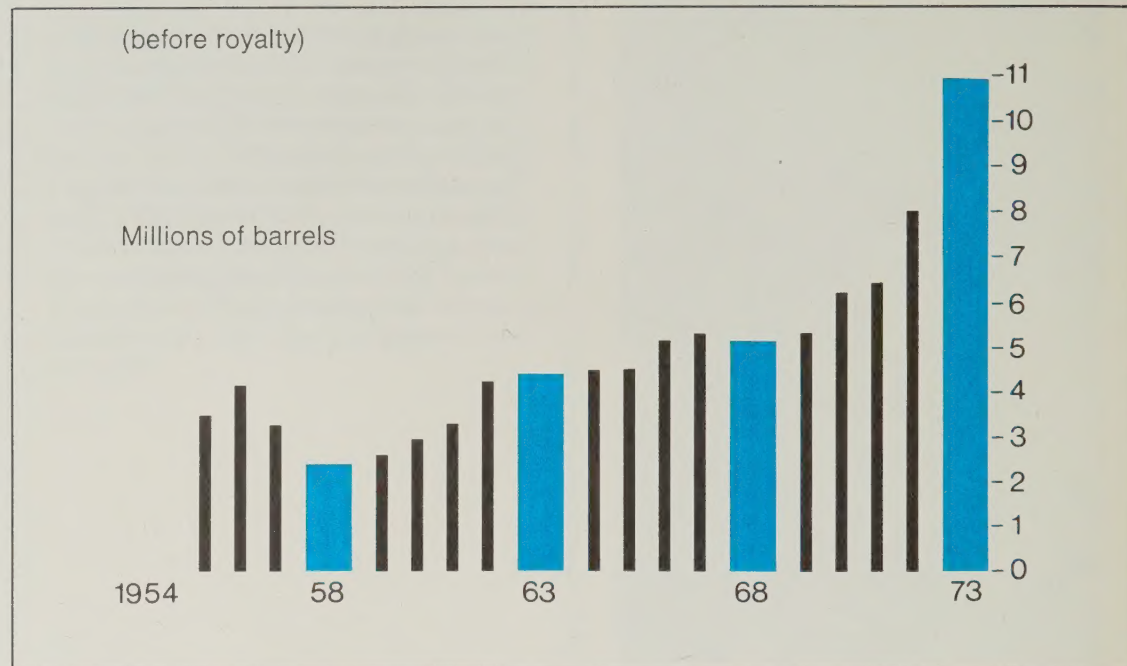
contract the farmee will pay 75% of the Company's share of the estimated \$1 million cost of a test well in order to earn an interest. This will result in your Company retaining a residual interest of 25%.

In the South MacKenzie Delta area of the Northwest Territories a farm-in well drilled in association with others resulted in a dry hole, but the Company earned 10% interest in 48,000 acres. On the Anderson Plains, some 200 miles to the east, another prospect is being readied for future drilling on a wholly owned 290,000 acre block.

At December 31, 1973, the Company held varying interests in 30 million gross acres of permit and reservation type lands, and in 2.4 million gross acres of leases. These statistics do not include the 80 million gross permit acres held by Panarctic Oils Ltd., in which the Company holds a 2% net carried interest, nor approximately 900,000 gross acres of mineral title and royalty interests held by the Company in the prairie provinces. The net holdings of the Company amounted to approximately 5.2 million acres of permits and reservations and 1.1 million acres of leased lands, about the same level as the previous year.

During the past year approximately 17 wells were drilled by Panarctic and its partners on holdings in the Arctic Islands. The significant results of this

CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCTION



activity were the gas discoveries at Kristoffer Bay on Ellef Ringnes Island and at Hecla on Melville Island. Gas was also encountered in a follow-up well to the previous discovery on Thor Island. An active exploration programme is again underway this winter and pipe line feasibility studies are continuing.

Sales of crude oil and natural gas liquids amounted to 10.9 million barrels, compared to 7.9 million barrels in 1972. The average daily liquid production was approximately 30,000 barrels, an increase of 8,000 barrels over the previous year. Natural gas sales totalled 34.0 billion cubic feet, compared to 34.5 billion in 1972. Sulphur sales were 221,000 long tons compared to 106,000 long tons. The crude oil wellhead price received by the Company in 1973 averaged approximately \$3.45 per barrel, an increase of 60¢ from the previous year. The Company has renegotiated substantially all of its natural gas contracts to provide for a two-year price redetermination and has obtained higher prices. While the full impact of the new prices has not yet taken effect, the average natural gas price for 1973 was approximately 21¢ per MCF, compared to 18.1¢ in 1972, and will increase materially in 1974.

On the basis of an independent report on oil and gas reserves prepared as of November 30, 1973, the Company's proven reserves of crude oil and natural gas liquids, before royalty, at

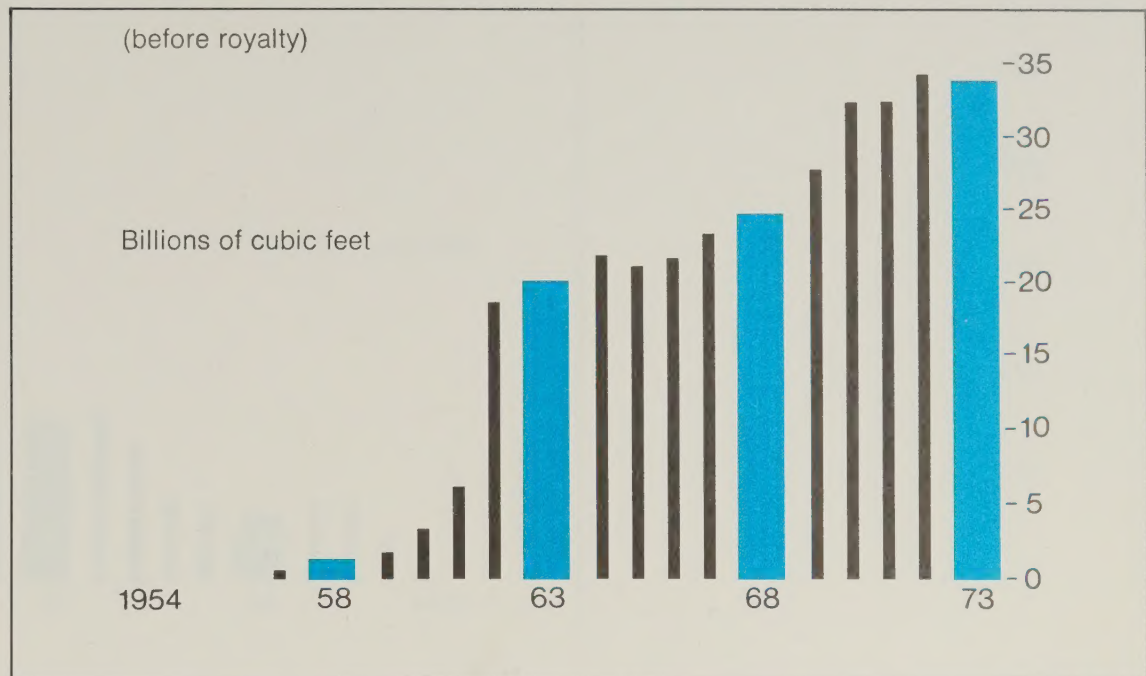
December 31, 1973, were estimated at 103 million barrels. Proven natural gas reserves were 750 billion cubic feet, before royalty and sulphur reserves amounted to 2.9 million long tons. These reserve estimates collectively are about the same as reported last year. They do not attribute any reserves to the Company's holdings in the Athabasca Oil Sands area or to the Panarctic carried interest, or to reserves classified as "probable additional".

At the Athabasca Oil Sands a total of 400 core holes have been drilled including the 1973-1974 winter programme. An independent feasibility study was completed in 1973 and on the basis of this study the Company and its associates filed an application with the Alberta Energy Resources Conservation Board on January 18, 1974, for approval of a project to recover crude bitumen. Further information on this subject is in the supplement which appears at the back of this report, p. 22.

Largely as a result of low profit performance and changing provincial policies, the Company sold its retail propane operation in Calgary, realizing approximately the book cost.

During the year under review, the exploration and production operations of the petroleum industry were the subject of several new or amended regulations and acts of legislation by

NATURAL GAS SALES



the provincial governments of British Columbia, Alberta and Saskatchewan and were also materially affected by the Federal imposition of the export tax on crude oil. The effects of the new legislation on the Company, as far as can be judged at this time, may be summarized as follows:

In British Columbia, new legislation has been enacted whereby the Company has been requested to consent to the assignment of its gas purchase contracts to a Crown agency. The resulting after-royalty prices, while improved, would not be sufficient to recover with a reasonable return our total historical investment in that province.

Effective January 1, 1974, the Alberta government imposed an increase in the Crown natural gas royalty, the former flat 16 $\frac{2}{3}$ % rate being replaced by a sliding scale royalty commencing at 22% and escalating incrementally, on the basis of price increases, to a maximum of 65%. The significant pentane liquid volumes produced from our fields will also have substantially increased royalty levels above a certain price level, with the government sharing equally all increases. Sulphur royalties will remain at the present 16 $\frac{2}{3}$ %. The government also announced that it has postponed for several months the anticipated amendment to the royalty regulations on crude oil.

In Saskatchewan, the value of the

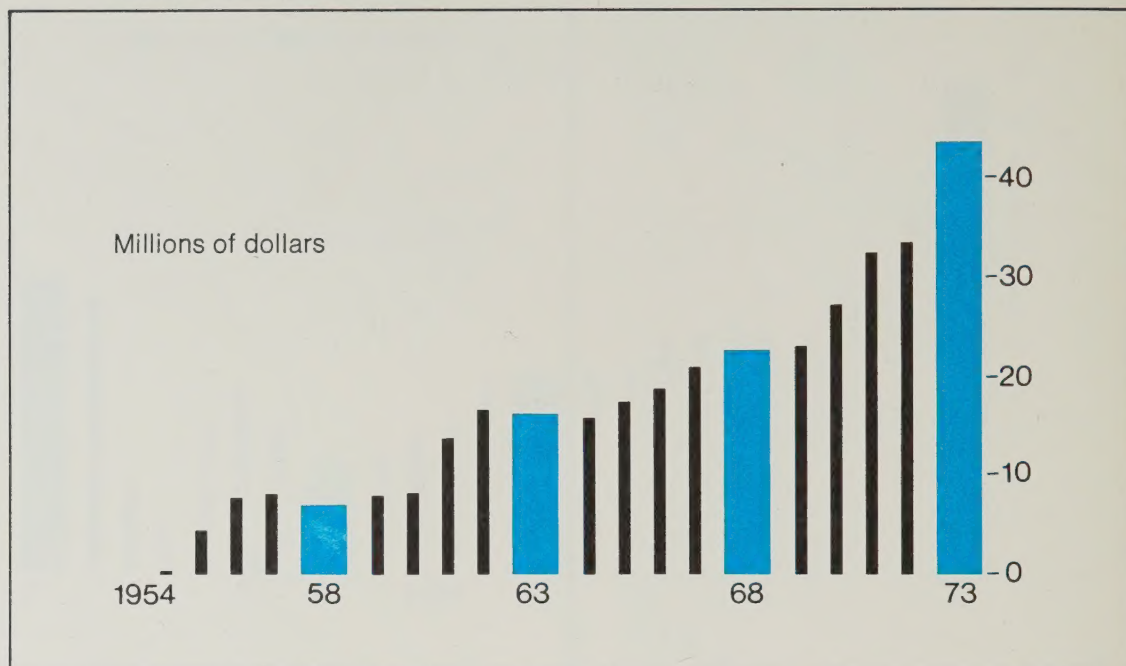
Company's 1973 crude oil production amounted to approximately \$2.2 million, partly as a lessee under Crown and freehold leases, partly as lessor of freehold rights, and partly as an owner of freehold mineral title rights. Under legislation passed in December, 1973, the Saskatchewan government (a) imposed a system of mineral income tax, or royalty surcharge, on oil production whereby the Crown will receive all of the difference between a wellhead price and an international price as determined by the government from time to time, less an allowance of 50% for approved exploration and other expenditures, (b) expropriated the Company's oil producing freehold petroleum titles, leaving us only with a future royalty payment related to the frozen prices, and (c) increased by 150% the annual Crown acreage mineral tax on non-producing freehold title lands.

Supply and Refinery Sales

During 1973 the world crude oil supply situation altered drastically, and produced abnormal supply problems, complicating the logistics in the movement of crude oil.

Coupled with the problems of prices and dislocation of traditional supply patterns was the shortage of transportation, as each country made a concerted effort to obtain adequate quantities of crude oil for its home market.

CASH GENERATED



In the case of your Company, notwithstanding these problems, there was no material disruption in deliveries, but for the first time the Company commenced using Western Canadian crude, in part, for its refinery operations in Montreal. During the year a total of 22,204,000 barrels of all types of crude oil was delivered to the Company's Pointe-aux-Trembles refinery.

While the supply patterns and transportation continue to present certain problems, no disruption in the Company's operations is anticipated in 1974. Prices, however, are likely to remain extremely high except for Western Canadian crude, where the wellhead price has been held down through government action.

Manufacturing

Crude oil charged to the refinery totalled 22,472,000 barrels for an average of 61,500 barrels per calendar day. This record quantity was an increase of 1,206,000 barrels, or 5.6%, over the previous year. The improved throughput was achieved as a result of the expansion of the refinery crude oil processing facilities.

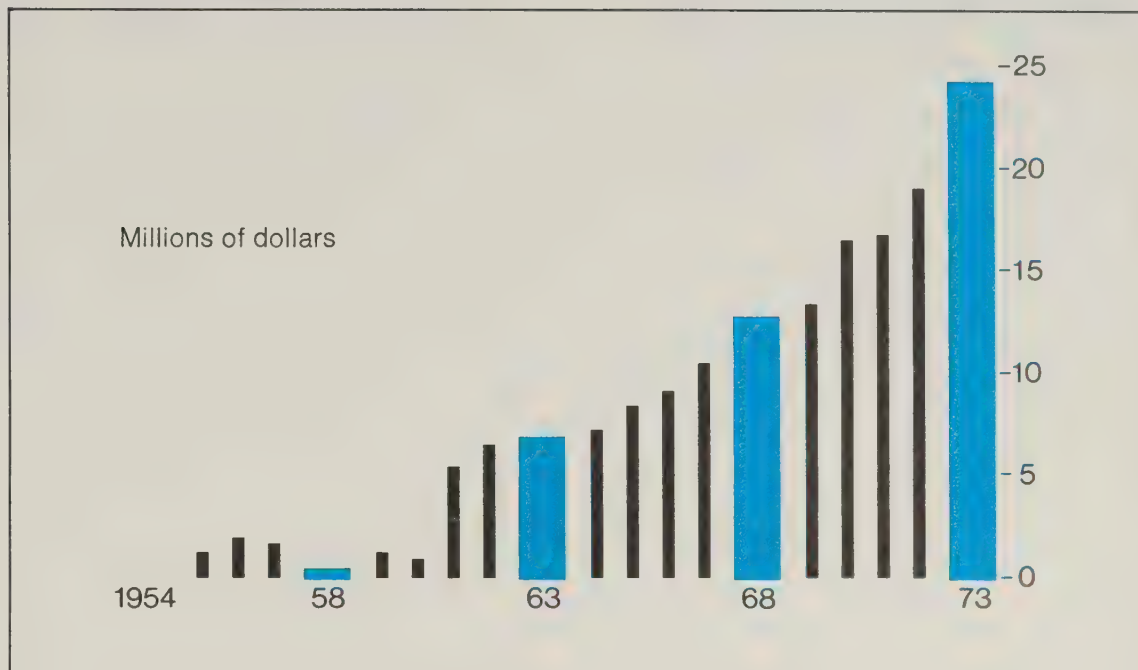
The combination of local sulphur regulations on fuel oil, as well as the cutbacks and boycotts by Arab producing countries, created a complicated crude oil supply picture for the refinery. Fortunately, because of the continuing process of improved refining facilities,

providing more flexibility, a wide variety of crude oils can now be processed. During 1973 Middle East crude oils from six different areas were used, as well as five different types of South American crude, one African and one Western Canadian crude. Most of the crude oil originated in the Middle East.

The manufacture of petrochemicals is now a significant part of refinery operations, and sales amounted to 1,232,000 barrels in 1973. The aromatic facilities produced a 12% greater volume than in the previous year. The major petrochemicals produced are benzene and toluene. However, various types of xylenes, as well as nonenes and polybutenes were also manufactured. During 1973 a world-wide shortage of petrochemicals developed and your Company is now in a position to supply important quantities of these feed-stocks to consumers throughout the world.

In early 1973 the Company completed a substantial part of its continuing expansion programme with the start up of the hydrocracker unit. Additional projects are underway, most of which will be completed in 1974. The special units being erected at the present time include a new crude oil unit, a hydrofiner and powerformer. These will not only permit the Company to increase its crude oil capacity from 70,000 to 95,000 barrels per day, but will assist in the manufacture of additional quantities of high quality, high octane

NET INCOME



gasolines, and reduce sulphur levels in middle distillates.

The Company's pollution abatement programme continued in 1973 with the construction of a new sewer line, the redesign of the coker unit, new storage facilities for processing sour water, as well as the elimination of serious sources of noise.

Marketing

Notwithstanding the many problems encountered in 1973, total sales volume increased by 3.5% over the prior year's volume.

As a result of the uncertainties in the oil industry no important innovative changes were made to the Company's retail outlets, particular stress being placed on improvement in our standards of operation. In keeping with this objective, emphasis was placed on the development of large outlets with full service facilities in the urban centres. During the year 25 old style, unprofitable, stations were disposed of. Concurrently, three new full-line car washes were introduced in the Montreal area. At the year-end the Company had 1,593 retail outlets in operation.

The Company's Automotive Division enjoyed another successful year, despite the unavailability of new types of tires due to a prolonged strike at the plant of a supplier. The tires, batteries and automotive accessories sold at the

Company's outlets have been well received by the motoring public largely due to high quality requirements of all items sold under the FINA brand name.

Special attention was also paid to the development of our retail fuel oil operations, either through direct Company deliveries or through the sales agency programme.

In keeping with the programme entitled "Striving for Excellence", renewed emphasis was placed on the training of our dealers and field sales personnel who have direct contact with the public and are best able to understand and cope with the problems of presenting the Company's image to the consumer.

They have faced successfully the numerous difficulties encountered in the changing pattern in the marketing of petroleum products in 1973.

SUBMITTED ON BEHALF
OF THE BOARD

President and Chief Executive Officer

March 6, 1974.

AUDITORS' REPORT

To the Shareholders of
Petrofina Canada Ltd.:

We have examined the consolidated balance sheet of Petrofina Canada Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Montreal, Canada,
February 12, 1974.

**CONSOLIDATED STATEMENT OF
INCOME AND
RETAINED EARNINGS
year ended December 31, 1973**

	1973	1972
Revenue:		
Operating revenue	\$335,691,725	\$232,927,634
Interest and other	2,839,181	3,032,984
	<u>338,530,906</u>	<u>235,960,618</u>
Operating charges:		
Product costs, operating, exploration and administrative expenses	279,928,580	192,444,010
Taxes other than income taxes	6,172,753	4,879,576
Depreciation (note 4)	11,557,326	8,758,849
Depletion (note 4)	7,729,125	5,654,755
	<u>305,387,784</u>	<u>211,737,190</u>
	33,143,122	24,223,428
Interest on long-term debt	8,977,131	5,217,648
Net income	<u>\$ 24,165,991</u>	<u>\$ 19,005,780</u>
Retained earnings, beginning of year	\$ 67,304,887	\$ 56,026,132
Add net income	24,165,991	19,005,780
Deduct dividends	8,478,388	7,727,025
Retained earnings, end of year	<u>\$ 82,992,490</u>	<u>\$ 67,304,887</u>
Earnings per share	<u>\$2.42</u>	<u>\$1.91</u>

See accompanying notes

**CONSOLIDATED
BALANCE SHEET
December 31, 1973**

Assets	1973	1972
CURRENT:		
Cash	\$ 8,222,518	\$ 4,383,589
Accounts receivable, less allowance for doubtful accounts	53,376,360	37,369,380
Due from affiliated companies	14,661,737	18,599,127
Inventories (note 2)		
Oil products and other merchandise	35,934,569	25,112,245
Materials and supplies	4,609,572	3,960,020
Prepaid expenses	3,280,368	2,068,774
Total current assets	<u>120,085,124</u>	<u>91,493,135</u>
INVESTMENTS AND ADVANCES — at cost:		
Investments in other companies	2,462,605	2,462,605
Exploration, development and production deposits	260,854	281,346
Other (note 3)	13,846,974	14,361,701
	<u>16,570,433</u>	<u>17,105,652</u>
PROPERTIES, PLANT AND EQUIPMENT (note 4)	258,166,768	246,479,049
DEFERRED CHARGES	1,489,120	1,226,436
PREMIUMS PAID ON ACQUISITIONS — at cost	9,245,186	9,052,947
	<u>\$405,556,631</u>	<u>\$365,357,219</u>
On behalf of the Board:		
A. F. CAMPO, Director		
P. A. NADEAU, Director		

See accompanying notes

Liabilities and Shareholders' Equity

1973

1972

CURRENT:

Accounts payable and accrued charges	\$ 44,609,977	\$ 40,516,580
Dividends payable	600,755	550,701
Due to parent company	10,327,261	5,622,548
Due to affiliated companies	1,413,127	—
Notes and bills payable	26,812,513	17,914,844
Current maturities of long-term debt	12,346,583	9,668,310
Total current liabilities	<u>96,110,216</u>	<u>74,272,983</u>
ADVANCES BY PARENT COMPANY		
(U.S. \$5,000,000) not due within one year	4,980,000	4,979,688
LONG-TERM DEBT (note 5)	<u>106,172,242</u>	<u>103,549,689</u>
Total liabilities	<u>207,262,458</u>	<u>182,802,360</u>

SHAREHOLDERS' EQUITY:

Capital (note 6)

Common shares of \$10 par value:

Authorized — 12,000,000 shares

Issued — 9,975,174 shares

(1972 — 9,971,274 shares)	99,751,740	99,712,740
Contributed surplus (note 6)	15,549,943	15,537,232
Retained earnings (note 5)	82,992,490	67,304,887
	<u>198,294,173</u>	<u>182,554,859</u>
	<u>\$405,556,631</u>	<u>\$365,357,219</u>

**CONSOLIDATED STATEMENT OF
SOURCE AND APPLICATION
OF FUNDS**
year ended December 31, 1973

	1973	1972
SOURCE OF FUNDS:		
Operations —		
Net income	\$24,165,991	\$19,005,780
Depreciation, depletion and amortization	19,525,301	14,560,533
Total funds from operations	43,691,292	33,566,313
Long-term borrowings	16,609,497	25,385,861
Sale of properties, plant and equipment	2,996,152	1,975,637
Net decrease (increase) in other investments and advances	514,727	(6,514,344)
Issue of shares	51,711	34,938
Net decrease in other items	20,804	35,272
	<u>63,884,183</u>	<u>54,483,677</u>
APPLICATION OF FUNDS:		
Additions to properties, plant and equipment	33,970,322	35,619,541
Repayments of long-term debt	13,986,944	10,621,348
Dividends paid	8,478,388	7,727,025
Premiums paid on acquisitions	192,239	102,621
Net increase in deferred charges	501,534	45,113
	<u>57,129,427</u>	<u>54,115,648</u>
Net increase in working capital	6,754,756	368,029
Working capital, beginning of year	17,220,152	16,852,123
Working capital, end of year	<u>\$23,974,908</u>	<u>\$17,220,152</u>

See accompanying notes

**NOTES TO THE
CONSOLIDATED
FINANCIAL
STATEMENTS
December 31, 1973**

**1.
General**

The consolidated financial statements include the accounts of Petrofina Canada Ltd. and all subsidiaries.

Amounts in currencies other than Canadian dollars, have been translated as follows:

Current assets and current liabilities and advances by the parent company — at rates of exchange prevailing at year-end;

Long-term debt — at the rate of exchange prevailing at the date the debt was incurred;

Revenue and expenses — at rates of exchange prevailing through the year.

**2.
Inventories**

Oil products and other merchandise are shown at the lower of cost and net realizable value. Cost of oil products has been determined on the basis of the last-in, first-out method. Materials and supplies are shown at the lower of cost and replacement value.

**3.
Investments and advances — other**

Other investments consist of a 2% carried interest in the net production income of Panarctic Oils Ltd., mortgages and other receivables.

**4.
Properties, plant and equipment**

	1973		1972	
	Cost	Accumulated depreciation and depletion*	Net book value	Net book value
Producing properties	\$194,973,034	\$ 82,522,964	\$112,450,070	\$113,123,567
Refining	141,107,860	51,646,319	89,461,541	79,468,017
Marketing	83,108,605	29,840,045	53,268,560	50,380,679
Other	4,982,768	1,996,171	2,986,597	3,506,786
	<u>\$424,172,267</u>	<u>\$166,005,499</u>	<u>\$258,166,768</u>	<u>\$246,479,049</u>

*includes depletion of \$65,586,422

Producing properties —

The full-cost method of accounting is followed wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized. The total costs thus capitalized are depleted on the composite unit of production method based on the estimated reserves of oil, gas and other saleable products. Depreciation on production equipment, gas plants and related facilities is provided on the same basis.

Refining, marketing and other properties and equipment —

Depreciation is based on the estimated service lives of the assets, calculated on the straight-line method except for vehicles, where the diminishing balance method is used.

**5.
Long-term debt**

Petrofina Canada Ltd. —

Secured:

Production loans secured by certain oil and gas properties, payable in various amounts through 1982 with interest rates varying between prime rate and 1% above prime rate	12,538,027	
Other loans (mainly mortgages on real estate)	716,449	\$ 13,254,476

Unsecured:

Loans with interest between ½ % and 1¼ % above the prime rate, due in varying annual instalments through 1983	88,919,844	
6½ % promissory notes totalling U.S. \$6,900,000 payable U.S. \$850,000 annually to 1980 and the balance in 1981	7,449,145	
6% loans due in varying semi-annual instalments from 1975 to 1981 (U.S. \$2,980,168)	2,970,098	
Non-interest-bearing advances made to finance the development of certain gas reserves, repayable out of production	2,322,262	
Other loans	603,000	102,264,349
		<u>115,518,825</u>

Subsidiaries —

Unsecured:

Loan with interest at ¾ % above the prime rate, due \$200,000 annually to 1978 and the balance in 1979	2,000,000	
Loan with interest at the prime rate, due in 1975	500,000	
6¼ % loan repayable in 1974	500,000	3,000,000
		<u>118,518,825</u>
Less instalments included in current liabilities		12,346,583
		<u>\$106,172,242</u>

Annual payments required to retire long-term debt amount to approximately \$14,346,000 in 1975, \$13,472,000 in 1976, \$13,550,000 in 1977 and \$12,503,000 in 1978.

Included in the covenants contained in agreements relating to certain of the long-term debts are restrictions limiting the amount of consolidated long-term debt and the payment of dividends by the Company. Dividends cannot be declared or paid if, as a result, the consolidated retained earnings are reduced below \$13,539,000. Consolidated retained earnings as at December 31, 1973 were \$82,992,490.

**6.
Capital**

During the year 3,900 common shares were issued under the Company's stock option plan. The premium of \$12,711 received on the issuance of these shares has been credited to contributed surplus. The Company has reserved 41,200 common shares for issuance under the stock option plan and as at December 31, 1973 there are no stock options outstanding.

**7.
Income taxes**

For income tax purposes the Company claims capital cost allowances in amounts which are in excess of the related depreciation reflected in the accounts, thus eliminating or reducing income taxes otherwise payable. On the other hand, intangible development costs, (namely, lease acquisition, exploration and drilling costs) are claimed in amounts which are less than the related depletion and amortization reflected in the consolidated accounts.

On a cumulative basis, however, capital cost allowances claimed have been less than accumulated depreciation, and intangible development costs claimed have been in excess of the related depletion charged in the accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. The Company does not believe that tax allocation in respect of intangible development costs is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs. At the same time, no credit has been taken for future tax reductions which will result from having claimed capital cost allowances in amounts which are less than depreciation charged in the accounts.

If the tax allocation basis, as recommended by the Canadian Institute of Chartered Accountants, had been followed in current and prior years, net income for the year 1973 would have been increased by a credit for income taxes of approximately \$1,400,000, (1972 — \$700,000, restated from the amount shown last year, to reflect a change, commencing with the filing of the Company's 1972 income tax returns, in the basis of calculating the depletion allowance which may be claimed for tax purposes). The cumulative amount of deferred taxes to December 31, 1973 would have been approximately \$8,900,000 (1972 — \$10,300,000, restated).

The question of applying deferred tax accounting to intangible development costs is the subject of a current study which has been undertaken by representatives of the oil and gas industry at the instance of Canadian provincial securities commissions. This study is to be completed by February 28, 1974 and the Company's future policy with respect to deferred tax accounting will be determined at that time.

**8.
Commitments and contingencies**

Annual rentals payable on long-term leases (three years and over) for real property amount to approximately \$3,518,000 (1972 — \$3,392,000).

At December 31, 1973 the companies had guaranteed loans amounting to approximately \$1,320,000.

**9.
Remuneration of directors and officers**

During the year, the seventeen directors of the Company received \$26,800 as directors and the eleven officers of the Company (four of whom were directors) received \$641,000 as officers.

TWENTY YEAR REVIEW
OF OPERATIONS

Statistical

Crude oil and natural gas liquids production, before royalty (thousands of barrels)	
Natural gas sales, before royalty (millions of cubic feet)	
Number of wells drilled in which Company had participation	
Number of wells completed in which Company had participation	
Sulphur sales (long tons)	
Gross acreage (thousands of acres)	
Net acreage (thousands of acres)	
Crude oil runs to refinery stills (thousands of barrels)	
Total outlets used in distribution of refined products	
Number of employees	

Financial

(in thousands of dollars)	
Revenue	
Net income	
Depreciation, depletion and amortization (including amortization of excess cost)	
Total cash generated	
Working capital	
Total assets	
Long-term debt	
Book value of shareholders' equity	

*Includes special non-recurring write-off of \$3,446,000

[illegible]

DIRECTORS
AND
OFFICERS

Principal officers

A. F. Campo, Chairman of the Board
P. A. Nadeau, President and Chief Executive Officer

SENIOR VICE-PRESIDENTS

J. Cartier (Marketing)
Donald Harvie (Exploration & Production)
K. S. C. Mulhall, Treasurer

VICE-PRESIDENTS

J. E. Baugh (Exploration & Production)
H. J. Hughes, Comptroller
A. W. McLeod, General Counsel and Secretary
J. F. Mills (Manufacturing)
N.H. Van Son (Supply & Refinery Sales)

Directors

W. A. Arbuckle, Chairman of the Canadian Board of the Standard Life Assurance Company
L. Beaudoin, President and Chief Executive Officer, Bombardier Ltd.
A. F. Campo, Chairman of the Board, Petrofina Canada Ltd.
F. M. Covert, O.B.E., D.F.C., Q.C., Senior Partner, Stewart, MacKeen & Covert
W. L. Forster, C.B.E., Consultant
The Hon. J. J. Greene, P.C., D.F.C., Q.C., Member, Soloway, Wright, Houston & Greenberg
Donald Harvie, Senior Vice-President, Petrofina Canada Ltd.
Emmanuel Lamy, President, Banque de l'Union Parisienne

A. Demeure de Lespaul, Vice-Chairman of the Board and Managing Director, Petrofina S.A.
Roger Létourneau, Q.C., Senior Partner, Létourneau, Stein, Marseille, Delisle & LaRue
J. Meeus, Chairman of the Board and Chief Executive Officer, Petrofina S.A.
P. A. Nadeau, President and Chief Executive Officer, Petrofina Canada Ltd.
Trajan Nătescu, Petroleum Consultant
Blanche Noyes, Senior Vice-President, Hornblower & Weeks-Hemphill, Noyes Inc.
J. R. Patton, retired
Sam Steinberg, Chairman of the Board and Chief Executive Officer, Steinberg's Limited
Peter N. Thomson, Deputy Chairman, Power Corporation of Canada, Limited

Executive Offices

The Royal Bank of Canada Building,
1 Place Ville Marie, Montreal, Quebec.
H3B 4A9

Auditors

Clarkson, Gordon & Co.

Transfer Agent

Montreal Trust Company

Registrar

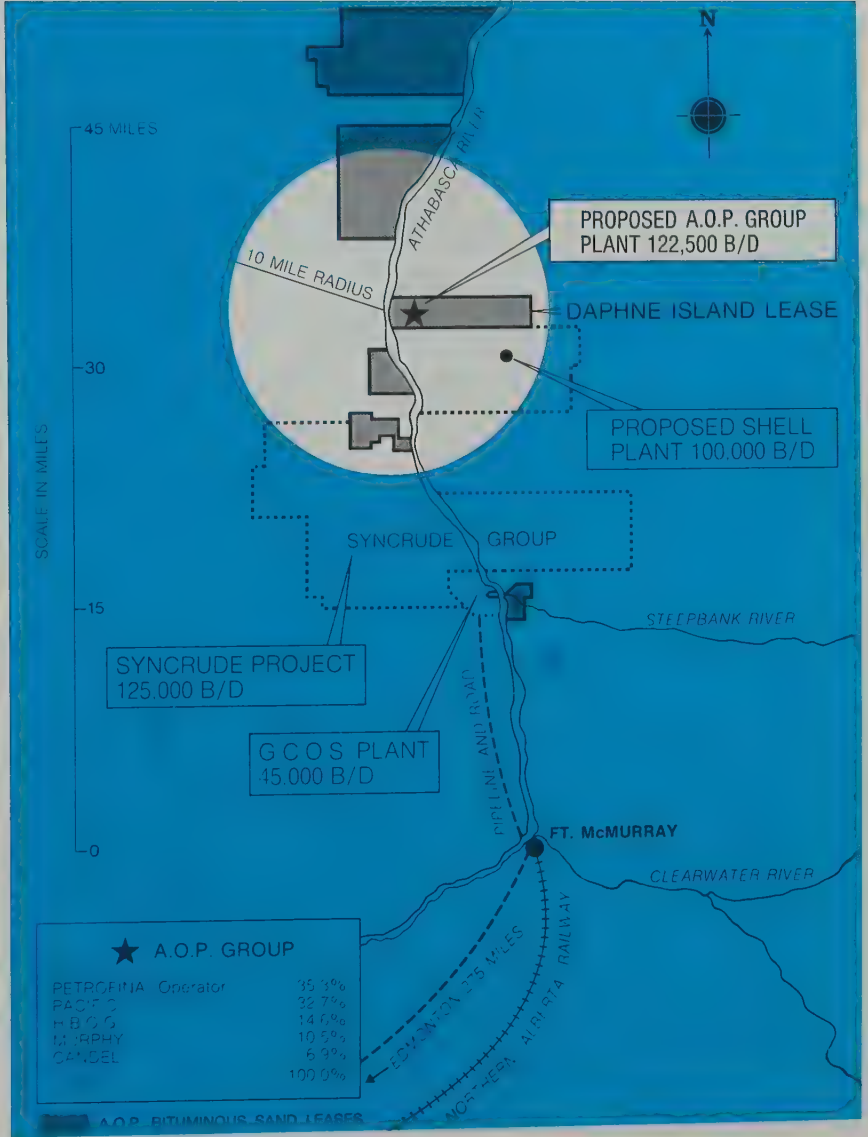
The Royal Trust Company

ATHABASCA
OIL SANDS PROJECT

The accompanying map of the Athabasca area shows the 103,000 acre holdings of the Project operated by the Company which has a 35.3% working interest. Since inception, to December 31, 1973, the Company's share of the total expenditures amounted to approximately \$1.6 million.

As operator for the participants, the Company has applied to the Alberta Energy Resources Conservation Board for approval to commence a project for the recovery of crude bitumen. The plan, as proposed, involves a mining operation and extraction and upgrading facilities designed to produce 122,500 bbls. per day of 30° API synthetic crude oil and some 800 long tons of sulphur. The capital cost in terms of 1973 dollars is estimated at \$850 million. The present time schedule includes a period for pilot testing, process optimization and confirmation through mid-1977, with the commencement of final engineering design during that year to enable construction to begin in 1978. The target for initial production is 1982.

Subject to and following Board approval, the group expects to enter into negotiations with the Alberta government on the matter of royalty and with the appropriate provincial and federal authorities on other matters related to the oil sands development. The economics of a project of this magnitude are sensitive to government policies and requirements and therefore a final decision to proceed with development will not be taken until the various government negotiations have been satisfactorily completed.







SEMI-ANNUAL REPORT TO THE SHAREHOLDERS

The Company's net income for the first six months of 1973 amounted to \$10,186,000 (\$1.02 per share), compared with \$9,629,000 (\$0.96 per share), in the previous year. Cash generated from operations increased to \$19,729,000 (\$1.97 per share), compared with \$16,306,000 (\$1.63 per share), in the corresponding period last year.

During the first quarter of 1973 refinery operations were impaired substantially by two fires and by delays in commissioning the new hydrocracker. In the first half of the year net income was also affected by increased depreciation, amortization, etc., charges which amounted to \$9,542,000 in 1973 compared with \$6,676,000 in 1972.

In Western Canada production of crude oil and natural gas liquids increased materially while natural gas production was the same as last year. The comparative figures are as follows:

	1973	1972
Crude Oil and Natural Gas Liquids	5,315,000	3,517,000
	Bbls.	Bbls.
Natural Gas	17,639,000	17,623,000
	MCF	MCF

Notwithstanding the problems encountered in the first half of the year and the increased costs of crude oil and transportation, it is anticipated that the Company's net earnings for the full year 1973 will show a satisfactory increase over 1972.

On August 1, 1973, the Company increased its semi-annual dividend rate to \$0.45 per share. Total dividends declared in 1973 amount to \$0.85 per share compared with \$0.77½ per share in 1972.

P. A. Nadeau,
President

August 1, 1973

PETROFINA CANADA LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the half year ended June 30, 1973

(With comparative figures

for the half year ended June 30, 1972)

(Unaudited)

	<u>1973</u>	<u>1972</u>
Gross income:		
Operating income	\$146,802,323	\$108,332,537
Interest and other income	<u>1,820,422</u>	<u>1,306,572</u>
	<u>\$148,622,745</u>	<u>\$109,639,109</u>
Operating charges:		
Costs, operating, selling and general	\$122,524,957	\$ 88,749,334
Taxes other than income taxes ...	2,728,874	2,373,168
Depreciation	5,551,254	4,014,095
Depletion	<u>3,882,914</u>	<u>2,582,751</u>
	<u>\$134,687,999</u>	<u>\$ 97,719,348</u>
	\$ 13,934,746	\$ 11,919,761
Interest and discount on long-term debt	<u>3,748,791</u>	<u>2,290,313</u>
Net income	<u>\$ 10,185,955</u>	<u>\$ 9,629,448</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the half year ended June 30, 1973

(With comparative figures

for the half year ended June 30, 1972)

(Unaudited)

Retained earnings beginning of year .	\$ 67,304,887	\$ 56,026,132
Net income for the current year to date	<u>10,185,955</u>	<u>9,629,448</u>
	\$ 77,490,842	\$ 65,655,580
Dividends	<u>3,989,830</u>	<u>3,738,515</u>
Retained earnings, end of period	<u>\$ 73,501,012</u>	<u>\$ 61,917,065</u>

PETROFINA CANADA LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS**

For the half year ended June 30, 1973

(With comparative figures

for the half year ended June 30, 1972)

(Unaudited)

	<u>1973</u>	<u>1972</u>
SOURCE OF FUNDS:		
Operations—		
Net Income	\$10,185,955	\$ 9,629,448
Depreciation, depletion and amortization	<u>9,542,564</u>	<u>6,676,471</u>
Total funds from operations	\$19,728,519	\$16,305,919
Long-term borrowings	5,242,081	15,680,294
Sale of fixed assets	1,432,925	985,199
Issue of shares	<u>44,136</u>	<u>20,612</u>
	<u>\$26,447,661</u>	<u>\$32,992,024</u>

APPLICATION OF FUNDS:

Additions to properties, plant and equipment	\$14,397,976	\$25,047,550
Repayments of long-term debt ...	6,154,360	3,899,870
Dividends paid	3,989,830	3,738,515
Net increase in mortgages and other advances	495,563	160,882
Premium paid on acquisition	<u>—</u>	<u>117,100</u>
	<u>\$25,037,729</u>	<u>\$32,963,917</u>
Net increase (decrease) in working capital	\$ 1,409,932	\$ 28,107
Working capital, beginning of year ..	<u>17,220,152</u>	<u>16,852,123</u>
Working capital, end of period	<u>\$18,630,084</u>	<u>\$16,880,230</u>

PÉTROFINA CANADA LTÉE ET SES FILIALES

ÉTAT CONSOLIDÉ DE PROFITS ET PERTES

Pour le semestre terminé

le 30 juin 1973

(comparé aux chiffres en date du 30 juin 1972)

(non certifié par les vérificateurs externes)

	<u>1973</u>	<u>1972</u>
Revenus:		
Revenus d'exploitation	\$146,802,323	\$108,332,537
Intérêts et autres revenus	<u>1,820,422</u>	<u>1,306,572</u>
	<u>\$148,622,745</u>	<u>\$109,639,109</u>
Frais d'exploitation:		
Prix de revient, frais d'exploitation, frais de vente et frais généraux ...	\$122,524,957	\$ 88,749,334
Taxes autres que les impôts sur le revenu	2,728,874	2,373,168
Amortissement	5,551,254	4,014,095
Épuisement	<u>3,882,914</u>	<u>2,582,751</u>
	<u>\$134,687,999</u>	<u>\$ 97,719,348</u>
	\$ 13,934,746	\$ 11,919,761
Intérêts et escomptes sur les dettes à long terme	<u>3,748,791</u>	<u>2,290,313</u>
Bénéfice net	<u>\$ 10,185,955</u>	<u>\$ 9,629,448</u>

ÉTAT CONSOLIDÉ DES BÉNÉFICES ACCUMULÉS

Pour le semestre terminé

le 30 juin 1973

(comparé aux chiffres en date du 30 juin 1972)

(non certifié par les vérificateurs externes)

Bénéfices accumulés au début du semestre	\$ 67,304,887	\$ 56,026,132
Bénéfice net du semestre	<u>10,185,955</u>	<u>9,629,448</u>
	\$ 77,490,842	\$ 65,655,580
Dividendes	<u>3,989,830</u>	<u>3,738,515</u>
Bénéfices accumulés à la fin du semestre	<u>\$ 73,501,012</u>	<u>\$ 61,917,065</u>

PÉTROFINA CANADA LTÉE ET SES FILIALES

ÉTAT CONSOLIDÉ DE LA PROVENANCE ET DE L'UTILISATION DES FONDS

Pour le semestre terminé
le 30 juin 1973

(comparé aux chiffres en date du 30 juin 1972)
(non certifié par les vérificateurs externes)

	<u>1973</u>	<u>1972</u>
PROVENANCE DES FONDS:		
Exploitation—		
Bénéfice net	\$10,185,955	\$ 9,629,448
Amortissement et épuisement ..	<u>9,542,564</u>	<u>6,676,471</u>
Total des fonds provenant de l'exploitation	\$19,728,519	\$16,305,919
Emprunts à long terme	5,242,081	15,680,294
Vente d'immobilisations	1,432,925	985,199
Émission d'actions	<u>44,136</u>	<u>20,612</u>
	<u>\$26,447,661</u>	<u>\$32,992,024</u>

UTILISATION DES FONDS:		
Additions aux propriétés, installations et équipement	\$14,397,976	\$25,047,550
Remboursement de dettes à long terme	6,154,360	3,899,870
Dividendes versés	3,989,830	3,738,515
Accroissement des hypothèques et autres redevances	495,563	160,882
Prime versée sur acquisition	<u>—</u>	<u>117,100</u>
	<u>\$25,037,729</u>	<u>\$32,963,917</u>
Augmentation (diminution) nette du fonds de roulement	\$ 1,409,932	\$ 28,107
Fonds de roulement au début du semestre	<u>17,220,152</u>	<u>16,852,123</u>
Fonds de roulement à la fin du semestre	<u>\$18,630,084</u>	<u>\$16,880,230</u>



RAPPORT SEMESTRIEL AUX ACTIONNAIRES

Les revenus nets de la Compagnie pour le semestre se terminant le 30 juin 1973 se sont élevés à \$10,186,000 (\$1.02 par action), comparativement à \$9,629,000 (\$0.96 par action), au cours du premier semestre de l'année précédente. Les encaisses provenant des opérations ont atteint \$19,729,000 (\$1.97 par action), alors qu'elles étaient de \$16,306,000 (\$1.63 par action), au cours de la période correspondante en 1972.

Les opérations de raffinage au cours du premier trimestre ont été sérieusement affectées par deux incendies et des délais causés par la mise en marche du nouveau hydrocraqueur. Les revenus nets du premier semestre reflètent des frais accrus d'amortissement et d'épuisement s'élevant à \$9,542,000 en 1973 comparativement à \$6,676,000 en 1972.

Dans l'ouest du Canada, la production d'huile brute et de condensats s'est considérablement accrue alors que la production de gaz demeurerait stable. Les chiffres comparatifs sont comme suit:

	1973	1972
Huile brute et condensats	5,315,000 barils	3,517,000 barils
Gaz naturel	17,639,000 MPC	17,623,000 MPC

Nonobstant les difficultés auxquelles la Compagnie a fait face au cours du premier semestre, et nonobstant l'augmentation du coût du brut et du transport, la Compagnie prévoit que les profits pour l'année entière accuseront une augmentation satisfaisante par rapport à l'année 1972.

Le 1er août 1973, la Compagnie augmentait son dividende semi-annuel à \$0.45 par action. Le montant total des dividendes déclarés en 1973 est maintenant de \$0.85 par action comparativement à \$0.77½ en 1972.

P. A. Nadeau,
Président

le 1er août 1973